

Message Text

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43

ACTION ARA-20

INFO OCT-01 ISO-00 CIAE-00 DODE-00 PM-07 H-03 INR-10 L-03

NSAE-00 NSC-10 PA-04 RSC-01 PRS-01 SPC-03 SS-20

USIA-15 ACDA-19 IO-14 AID-20 DRC-01 EB-11 COME-00

INT-08 TRSE-00 SCEM-02 GSA-02 /175 W

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R 042030Z DEC 73

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 6764

INFO AMEMBASSY BRASILIA

AMEMBASSY BUENOS AIRES

AMEMBASSY LA PAZ

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E.O. 11652: N/A

TAGS: ECON, CI

SUBJECT: GOC ECONOMIC AUTHORIZES LOOK TOWARD 1974

REF: A) SANTIAGO 5895 (NOTAL); B)SANTIAGO 5564;

C) SANTIAGO 5741 (NOTAL)

1. SUMMARY; PROBLEM OF DECLINE IN WORKERS PURCHASING
POWER IN FACE OF VERY HIGH PRICES CONTINUES. GENERAL WAGE
INCREASE IS SCHEDULED FOR FIRST DAYS OF JANUARY, BUT MAGNITUDE
HAS NOT BEEN MADE PUBLIC. JUNTA PLANS AUSTERE 1974
GOVERNMENT BUDGET IN ATTEMPT TO KEEP INFLATION BELOW 100 PERCENT.
ECONOMIC AUTHORITIES ARE TAKING FIRST HALTING STEPS TOWARD SIZEABLE
HOUSING PROGRAM THAT WILL PARTIALLY RELIEVE UNEMPLOYMENT
SITUATION. GOC HAS BEEN UNSUCCESSFUL IN OBTAINING SUBSTANTIAL
CREDITS AND IS LOOKING FORWARD TO INCREASED EXPORT EARNINGS
FROM GREATER COPPER PRODUCTION AND RECORD COPPER PRICES. END
SUMMARY.

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2. INFLATION. CONTINUED HIGH PRICES FOR AVERAGE CHILEAN HAS

MEANT STORES ARE NOW CARRYING VERY PLENTIFUL SUPPLY OF GOODS, MANY OF WHICH CANNOT BE SOLD AT PREVAILING PRICES. SALES OF SUCH ITEMS AS HOUSEHOLD APPLIANCES AND SHOES HAVE PLUMMETED. COST OF RESTAURANT MEALS CONTINUES TO RISE AND CUSTOMERS ARE FEW. SANTIAGO STORES ARE NOW ADVERTISING MORE ITEMS WITH 10 OR 20 PERCENT DISCOUNTS IF CASH IS PAID. MIN ECON LENIZ HAS SAID THERE WILL BE SUBSTANTIAL RISE IN NOVEMBER COST OF LIVING INDEX, PRIMARILY BECAUSE OF CARRYOVER FROM RECORD PRICE INCREASES IN OCTOBER. HE ALSO HAS EXPRESSED CONCERN ABOUT PRICES AND SAID GOC IS STUDYING POSSIBILITY OF CREDITS TO SMALL-SCALE PRODUCERS WHO HAVE BEEN PARTICULARLY HARD HIT. WE UNDERSTAND GOC ECONOMIC TEAM AND VISITING IMF MISSION ARE HOPING TO KEEP INFLATION BELOW 100 PERCENT NEXT YEAR (REF A)

3. WAGE SQUEEZE. SQUEEZE ON PURCHASING POWER OF MIDDLE AND LOWER CLASSES REPORTED REF BE CONTINUES. GOC HAS ANNOUNCED THAT DECEMBER BONUS CAN BE PAID IN ADVANCE AND THAT SUBSIDIES (UP TO E10,000) ARE BEING GRANTED TO VERY SMALL FARMERS (MINIFUNDISTAS) IN ATTEMPT PARTIALLY RELIEVE ECONOMIC PRESSURES. SIZE OF GENERAL WAGE INCREASE SCHEDULED FOR EARLY JANUARY 1974 WILL APPARENTLY BE 60 PERCENT ABOVE PRESENT LEVELS (REF A), BUT THIS HAS NOT BEEN PUBLICLY ANNOUNCED.

4. BUDGET. JUNTA IS FINDING THAT 1973 GOVERNMENT COSTS ARE RISING FASTER THAN EXPECTED. SEVERAL DAYS AGO THE GOC PUBLISHED A SECOND 1973 SUPPLEMENTAL CENTRAL GOVERNMENT BUDGET OF E 27 BILLION, SLIGHTLY HIGHER THAN THE FIRST SUPPLEMENTAL OF E 24 BILLION OF EARLY OCTOBER. GOC IS APPARENTLY PLANNING AN AUSTERE 1974 GOVERNMENT BUDGET. MINISTRY OF FINANCE HAS ASKED ALL GOVERNMENT ENTITIES TO CUT THEIR EFFECTIVE SPENDING TO 10 PERCENT BELOW 1973 FIGURE BY ELIMINATING ALL UNNECESSARY PROGRAMS AND PERSONNEL. DECENTRALIZED AGENCIES ARE BEING TOLD NOT TO EXPECT MUCH BANK CREDIT NEXT YEAR. CABINET IS NOW CONSIDERING 1974 BUDGET, WHICH IS SCHEDULED TO BE PUBLISHED AS DECREE BY END OF DECEMBER.

5. INVESTMENT. GOC APPEARS TO BE MOVING TOWARD LARGE HOUSING PROGRAM AS A MAJOR TASK OF DOMESTIC PRIVATE AND PUBLIC INVESTMENT. HOUSING CHAMBER OF COMMERCE HAS PRESENTED TO LIMITED OFFICIAL USE

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MINISTER OF EDUCATION PLAN FOR CONSTRUCTION OF 400,000 HOUSES IN 6 YEARS, WITH EMPHASIS ON LOW INCOME HOUSING. MINECON LENIZ HAS INDICATED THAT GOC ALSO INTERESTED IN PUBLIC WORKS AND REFORESTATION PROJECTS IN 1974 TO ABSORB INCREASING NUMBER OF UNEMPLOYED. DOMESTIC SAVINGS HAS NOT YET RESPONDED TO POLICIES OF NEW GOVERNMENT. PRELIMINARY OCTOBER-NOVEMBER CENTRAL BANK DATA SHOW SAVINGS ACTUALLY DECLINING (ON 12 MONTH BASIS) IN NOMINAL TERMS. THIS IS UNDERSTANDABLE DEVELOPMENT

CONSIDERING PRESENT LIQUIDITY SQUEEZE.

6. AGRARIAN REFORM. GOC IS HAVING ADMINISTRATIVE DIFFICULTIES IN DISTRIBUTING LAND TITLES TO COMPESESINOS ON COOPERATIVES. ACCORDING LATEST ANNOUNCEMENT, CORA (AGRARIAN REFORM CORPORATION) WILL NOT HAVE READY FOR ANOTHER 30 DAYS LIST OF SOME INDIVIDUALS WHO WILL RECEIVE TITLES. RESIGNATION OF CORA HAD SILVA AND ADMINISTRATIVE COMPLEXITY OF MINISTRY OF AGRICULTURE HAS UNDOUBTEDLY SLOWED IMPLEMENTATION OF DECISIONS IN THIS AREA.

7. EXTERNAL CREDITS. GOC HAS BEEN VERY SUCCESSFUL IN OBTAINING ECONOMIC ASSISTANCE, PARTICULARLY FROM US, ARGENTINA AND BRAZIL. LATTER TWO COUNTRIES HAVE REPORTEDLY OFFERED AID PACKAGES OF OF APPROXIMATELY \$200 MILLION EACH (REF C) TO BE USED OVER SEVERAL YEARS. IN 1974 GOC ALSO EXPECTS PROJECT ASSISTANCE FROM WORLD BANK AND IDB AND CREDIT TRANCHE FACILITIES FROM IMF.

8. TRADE PICTURE. RECORD COPPER PRICES WILL MEAN LARGER THAN EXPECTED EARNINGS FOR CHILE DURING FINAL QUARTER OF 1973 AND ALMOST \$1 BILLION FOR YEAR (1972 WAS \$640 MILLION). PLANNED HIGHER COPPER PRODUCTION NEXT YEAR (CODELCO HEAD ZAUSCHQUEVICH HAS PUBLICLY INDICATED 1974 GOAL OF 740,000 MT FOR GRAN MINERIA PLUS 160,000 MT FROM SMALL AND MEDIUM MINES) WILL MEAN SUBSTANTIAL EXPORT EARNINGS. HOWEVER, PRELIMINARY CENTRAL BANK IMPORT PROJECTIONS FOR 1974 SHOW LARGE INCREASES IN IMPORTS OF RAW MATERIALS, CAPITAL GOODS, AND SPARE PARTS WHICH WILL STILL STILL LEAVE SIZEABLE 1974 TRADE DEFICIT. ALL SUCH CALCULATIONS ARE TENTATIVE AT BEST WHEN IT IS REMEMBERED EACH ONE CENT CHANGE IN THE ANNUAL AVERAGE LME PRICE FOR COPPER MEANS ABOUT \$18 MILLION TO CHILE.

THOMPSON

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